

# NEXTENERGY

## SOLAR FUND



NextEnergy Solar Fund Limited

Results for the period ended 30 September 2018

Analyst Presentation – 20 November 2018

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# Agenda – Presented by NextEnergy Capital, Investment Adviser

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**MICHAEL BONTE-FRIEDHEIM**  
NEC Founding Partner & CEO

- Investment Update – Michael Bonte-Friedheim



**ALDO BEOLCHINI**  
NEC Managing Partner & CFO

- Financial Results – Aldo Beolchini

- Q&A - Appendix



Investment Update

## Investment Highlights

### 30 September 2018

- NAV – £610m
- NAV/share – 105.1p
- GAV – £975m

- Investment portfolio of 87 solar PV assets amounting to 691MWp installed capacity
- Acquired 24 new UK solar assets during the last six months including **first investment of integrated battery energy storage systems** with operating solar assets

### 31 March 2018

- NAV – £605m
- NAV/share – 105.1p
- GAV – £875m

- **Fully deployed the equity capital raised.** Funds invested at **attractive valuations**
- Project rights to build in excess of **172MWp** without subsidies secured; on track to announce start of construction during second half of the financial year. Letters of Intent signed for **470MWp** incremental subsidy-free projects and early-stage discussions on several operational with-subsidy solar projects
- After the period end, announcement of **first Preference Shares issuance** for £100m to optimise the capital structure and reduce exposure to secured debt financing. Subsequent issuance expected by the second half of the financial year
- **Significant Portfolio overperformance** resulted in energy generation above budget (480GWh generated, **+7.9% above budget**)

## Continuous Operating Outperformance

Period	Assets monitored	Irradiation (delta vs. budget)	Generation (delta vs. budget)	Asset Management Alpha
First half 2015/16	17	+2.9%	+5.7%	+2.8%
First half 2016/17	31	+0.0%	+3.2%	+3.2%
First half 2017/18	41	+0.5%	+2.0%	+1.5%
First half 2018/19	84	+8.4%	+7.9%	-0.5%
<b>Cumulative from IPO to 30 September 2018</b>	<b>84</b>	<b>+1.6%</b>	<b>+4.2%</b>	<b>+2.6%</b>

- NESF's portfolio consistently generates more electricity than its acquisition budget estimates (+4.2% since IPO)
- This portfolio outperformance is only partially due to higher solar irradiation than forecasts (+1.6% since IPO) and to the Asset Management performance (+2.6% Alpha since IPO)
- The Asset Management Alpha would have been +0.5% for the first half 2018/19 without Distribution Network Operator outages

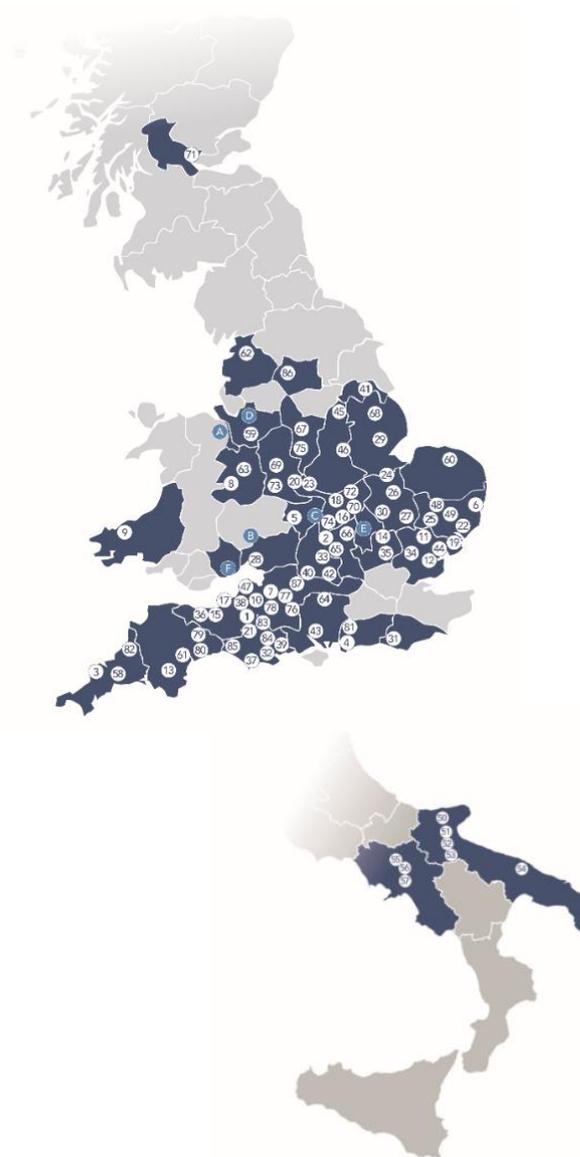
Notes:

(1) Asset Management Alpha defined as energy generated by portfolio vs budget (adjusted for delta in irradiation)

# Portfolio Assets

- NESF's 87 PV assets represent 691MWp of installed capacity and £894m of investment value
- NESF acquired project rights for subsidy free projects representing 172MWp

1	Higher Hatherleigh	36	Bowden
2	Shacks Barn	37	Stalbridge
3	Gover Farm	38	Aller Court
4	Bilsham	39	Rampisham
5	Brickyard	40	Wasing
6	Ellough	41	Flixborough South
7	Poulshot	42	Hill Farm
8	Condover	43	Forest Farm
9	Llywdu	44	Birch CIC
10	Cock Hill Farm	45	Barnby
11	Boxted Airfield	46	Bilsthorpe
12	Langenhoe	47	Wickfield
13	Park View	48	Bay Farm
14	Croydon	49	Honington
15	Hawkers Farm	50	Macchia Rotonda
16	Glebe Farm	51	Iacovangelo
17	Bowerhouse	52	Armiento
18	Wellingborough	53	Inicorbaf
19	Birch Farm	54	Gioia del Colle
20	Thurlestone Leicester	55	Carinola
21	North Farm	56	Marcianise
22	Ellough Phase 2	57	Riardo
23	Hall Farm	58	Gilley's Dam
24	Decoy Farm	59	Pickhill Bridge
25	Green Farm	60	North Norfolk
26	Fenland	61	Axe View
27	Green End	62	Low Bentham
28	Tower Hill	63	Henley
29	Branston	64	Pierces Farm
30	Great Wilbraham	65	Salcey Farm
31	Berwick	66	Thornborough
32	Bottom Plain	67	Temple Normaton
33	Emberton	68	Fiskerton Phase 1
34	Kentishes	69	Huddlesford HF
35	Mill Farm	70	Little Irchester



71	Balhearty
72	Brafield
73	Huddlesford PL
74	Sywell
75	Coton Park
76	Hook
77	Blanches
78	Whitley
79	Burrowton
80	Saundercroft
81	Raglington
82	Knockworthy
83	Chilton Canetello
84	Crossways
85	Wylde Meadow
86	Ernis - rooftops
87	Angelia - rooftops

### Project rights:

A	Francis/Gourton
B	Glebe
C	Radbrook
D	Moss
E	Staughton
F	Llanwern

## Current UK Pipeline

- NEC is negotiating multiple UK projects for NESF
- Advanced negotiation pipeline amounts to 470MWp for project rights
- In addition, NEC is in discussions on a further 136MWp with subsidies
- NEC continues to focus on securing investment opportunities at attractive acquisition metrics / return on capital employed

### Tier 1: Letters of Intent

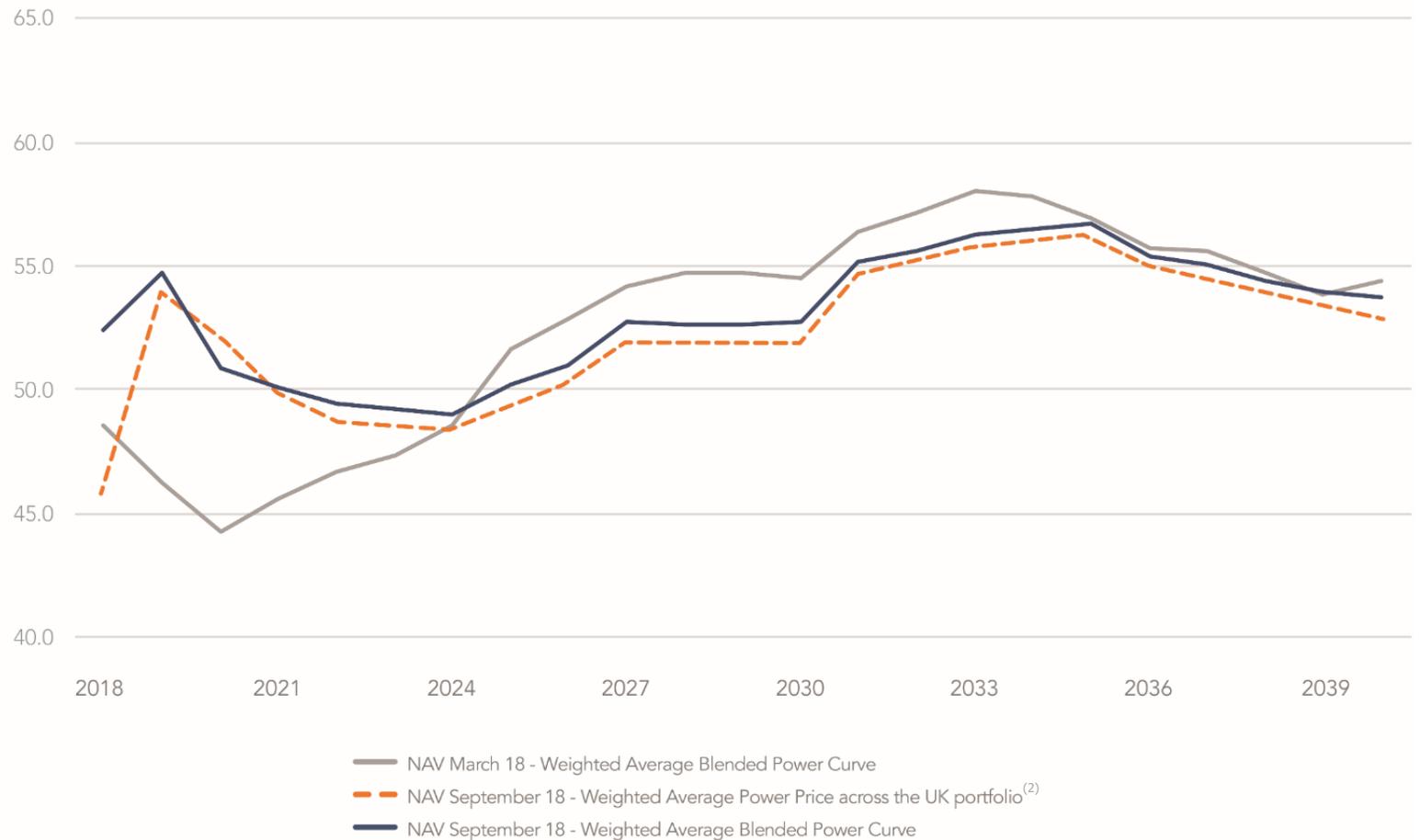
Power plants location	Incentive regime	Plant capacity	Status
Multiple sites – ground based	No Subsidies	470MWp	Planning
<b>TOTAL</b>		<b>470MWp</b>	

### Tier 2: Advanced/Other Negotiations

Power plants location	Incentive regime	Plant capacity	Status
Multiple sites – ground based	ROCs / FiT	136MWp	In operation
<b>TOTAL</b>		<b>136MWp</b>	

## UK Energy Market Prices

Forecast UK Power Price (Real 2018 - £/MWh)<sup>(1)</sup>



Notes:

(1) Source: Independent Energy Market Consultants

(2) Captured price is lower than Power Curve due to long term PPA arrangements and Export Tariffs

## Portfolio's Secured Power Prices

- NEC continues to secure higher power prices through its flexible PPA framework

	Apollo - ROC Assets (226 MWp)		Radius and NIBC assets (112 MWp)	
	Output Locked	Locked Price (£/MWh)	Output Locked	Locked Price (£/MWh)
Winter 2018 / 2019	100.0%	52.5	100.0%	52.5
Summer 2019	50.0%	53.5	50.0%	53.5
Winter 2019 / 2020	40.5%	58.5	40.5%	58.4
Summer 2020	15.0%	53.6	15.0%	53.6
Winter 2020 / 2021	15.0%	59.7	15.0%	59.7

- Power prices are contracted with different off-takers either through a trading framework agreement or short term fixed PPA

	Three Kings (53 MWp)	Private Wire (5 MWp)	UK FIT Assets (53 MW)	
	Locked Price (£/MWh)	Locked Price (£/MWh)	Export Tariff - 43MW (£/MWh) <sup>(1)</sup>	Export Tariff - 10MW (£/MWh) <sup>(1)</sup>
Winter 2018 / 2019	43.7	55.0	52.4	37.2
Summer 2019	38.7	55.0	54.0	38.4
Winter 2019 / 2020	41.1	55.0	54.0	38.4
Summer 2020	39.2	55.0	55.7	39.5
Winter 2020 / 2021	41.5	55.0	55.7	39.5

- NEC continues to optimise the PPA structure to allow the capture of higher prices and diversifying its suppliers in order to obtain the best market terms available

	Remaining UK assets (208 MWp)	
	Locked Price (£/MWh)	Power Curve (£/MWh)
Winter 2018 / 2019	61.6	55.2
Summer 2019	61.7	54.4
Winter 2019 / 2020	-	53.5
Summer 2020	-	50.1
Winter 2020 / 2021	-	52.2

- Solis portfolio provides limited exposure to the Italian wholesale power market (15% of Solis revenues)

	Solis (34 MWp)
	Italian Power Curve (€/MWh)
Winter 2018 / 2019	60.7
Summer 2019	60.5
Winter 2019 / 2020	60.5
Summer 2020	60.5
Winter 2020 / 2021	58.1

Notes:

(1) Company can choose not to elect for Export tariff at any given time for a period of 12-months

## Strategic Focus 2018/19

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- Optimisation of revenues and reduction of operating expenses of current portfolio of assets
- On-boarding and integration of acquired portfolios
- Construction of subsidy free assets in the UK
- Opportunistic acquisition of UK projects with subsidies, depending on value



Financial Results

## Financial Highlights

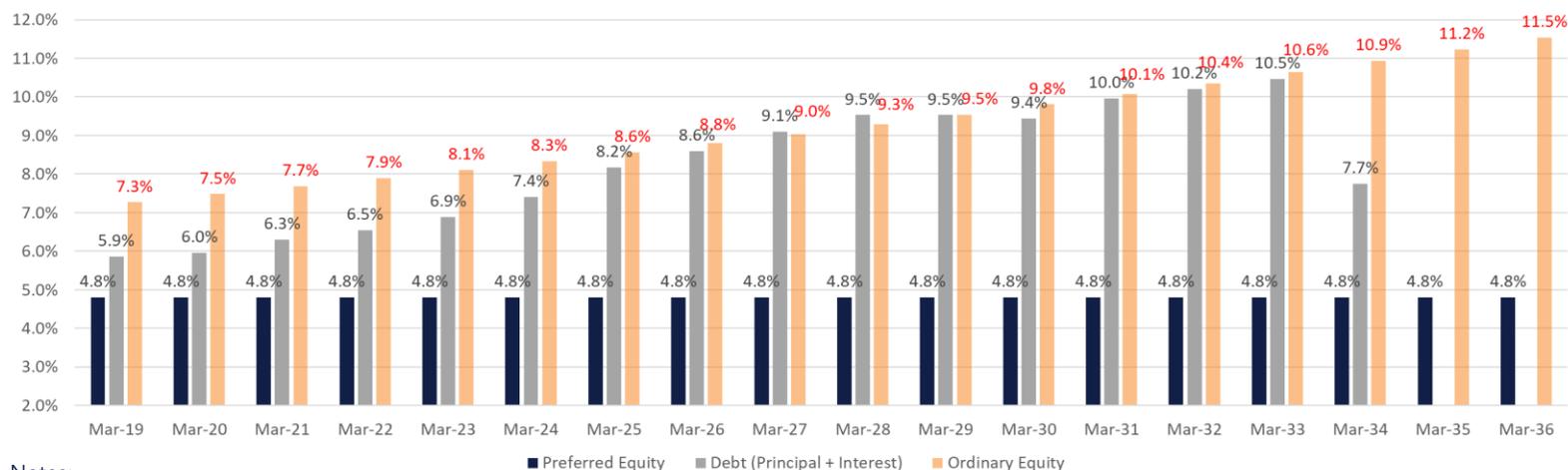
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- Net Asset Value grew from £605.0m to £609.8m. **NAV per share stable at 105.1p**
- **First Issuance of Preference Shares for £100.0m** on 13 November 2018 following shareholder approval on 8 November. The second issuance is expected to be completed by the end of financial year
- **Debt financing: 37% gearing ratio (31% in YE March 2018)**
  - Closing and subsequent drawdown of a new Revolving Credit Facility of £40.0m
  - Existing £20.0m Revolving Credit Facility available and fully undrawn
  - Acquisitions with existing long term debt facility of £58.3m and short term financing of £1.3m in place
  - Outstanding debt will reduce to £200.8m after repayment of existing debt following the targeted issuance of Preference Shares for £200m with a 20% gearing ratio
- Earnings per share of 3.23p. **Cash dividend cover pre scrip of 1.2x**
  - Achieved target dividend of 6.42p per share for the year ended 31 March 2018
  - On track to pay a dividend of 6.65p per share for the year ending 31 March 2019
- **Ongoing Charges Ratio remained at 1.1% (1.1% in YE March 2018)**

## Issuance of Preference Shares

- An issuance of £200m is expected to increase dividend cover by 0.15x and returns by 1.09% for ordinary shareholders <sup>(2)</sup>
- Simplify the capital structure by reducing the number of loans outstanding and exposure to secured debt financing
- Investment Policy amended to add the Preference Shares to the total debt outstanding for the purpose of the 50% Company's leverage limit over GAV
- The Investment Manager waived its fees related to the Preference Shares payable by the Company under the Investment Management Agreement
- On 8 November 2018, the Shareholders approved the creation of £200m of Preference Shares. The Company issued the first tranche of £100m and is expecting a subsequent issue by the end of the financial year
- Value accretive features:
  - lower issue cost of 1.1% compared to other capital raising avenues
  - lower cash cost with a fixed preferred dividend of 4.75% and no redemption requirements
  - option to redeem at nominal value starting from 1 April 2030 for six years at sole discretion of the Company
  - non-redeemable / non voting shares<sup>(1)</sup> with holder's conversion right starting from 1 April 2036 at nominal value (plus unpaid dividend if any) relative to NAV per Ordinary Share at the date of conversion (thus no refinancing risk)

### Alternative Funding Sources - Comparison of Fully-Costed Cost of Capital



Notes:

(1) Redemption rights in the event of delisting or change of control of the Company – Voting rights in the event of detrimental changes to the Investment Policy or Articles.

(2) Estimates only based on a typical UK solar portfolio and when compared to issuance of new ordinary shares.

## Track Record Since IPO

Financial KPI	Period ended 30 September 2018	Year ended 31 March 2018	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2015
Shares in issue	580.2m	575.6m	456.4m	278.0m	240.3m
Share price	111.5p	111.0p	110.5p	97.75p	103.75p
Market capitalisation	£647m	£639m	£504m	£272m	£249m
NAV per share	105.1p	105.1p	104.9p	98.5p	103.3p
Total NAV	£610m	£605m	£479m	£274m	£248m
Premium/(discount) to NAV	6.1%	5.6%	5.3%	(0.8%)	0.4%
Earnings per share	3.23p	5.88p	13.81p	0.78p	9.13p
Dividend per share	3.325p	6.42p	6.31p	6.25p	5.25p
Cash dividend cover – pre scrip	1.2x	1.0x	1.1x	1.2x	1.8x
Debt outstanding	£365m	£270m	£270m	£217m	£0m
Gearing level (Debt/GAV)	37%	31%	36%	44%	0%
Weighted Average Cost of Capital	5.6%	5.8%	5.9%	5.8%	7.5%
Weighted Average Lease Life	23.4 years	23.3 years	24.6 years	25.7 years	26.2 years
Shareholder total return – cumulative since IPO	37.4%	33.6%	26.7%	6.1%	5.9%
Shareholder total return – annualised since IPO	8.4%	8.5%	9.1%	3.2%	6.3%
Shareholder total return for period	3.4%	6.2%	21.1%	0.2%	5.9%
FTSE All Share total return for period	7.9%	1.4%	20.9%	(3.6%)	5.5%
NAV total return	3.1%	6.3%	14.4%	3.7%	3.3%
NAV total return – annualised since IPO	7.0%	7.0%	4.9%	1.9%	4.0%
Invested Capital	£894m	£734m	£522m	£481m	£252m
Ongoing Charges Ratio	1.1%	1.1%	1.2%	1.2%	1.5%
Weighted Average Discount Rate	7.3%	7.3%	7.9%	7.7%	7.5%

## Portfolio Valuation

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### Discount rates

- Equity discount rate remains at **6.75% for unlevered assets**
- Levered discount rates up to **9.00% for levered assets**
  - Up to 1.0% premium used to reflect greater risk to shareholders from levered assets/portfolios
  - 1.25% premium used to reflect risk from Italian country exposure vs. UK (15yr GBP/EUR hedge in place and lower volatility of cashflows compared to UK assets)
- Weighted **average discount rate remains at 7.3%**
- Weighted average cost of capital of 5.6%

### Drivers of portfolio valuation

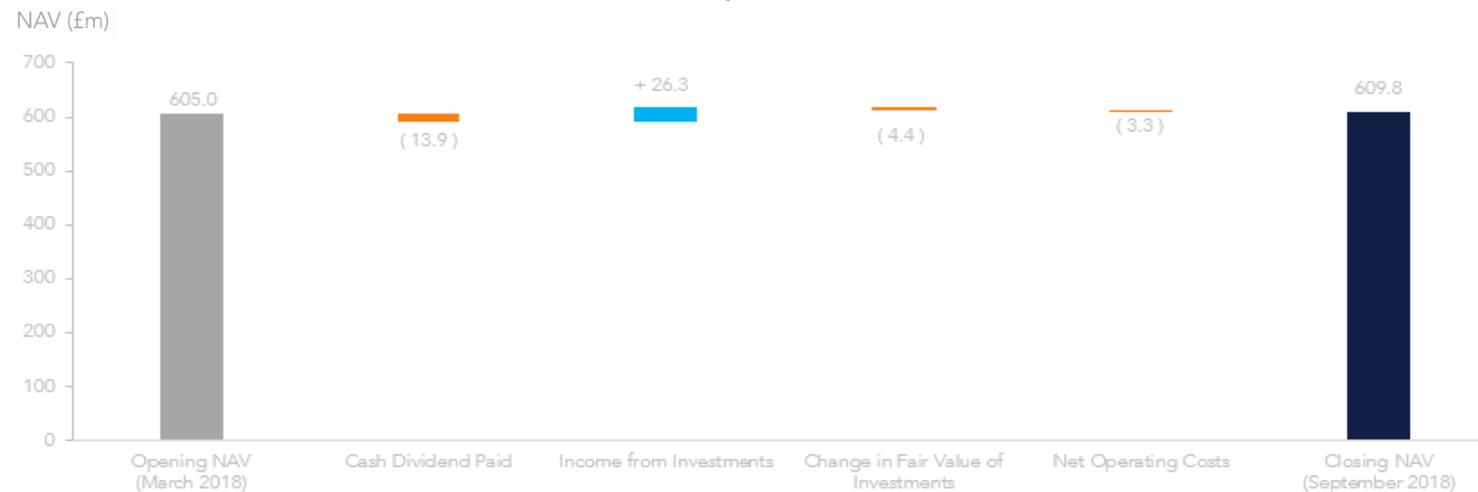
- Upward revisions in power price forecasts with an increase of 1.0% compared to March 2018 and captured short term electricity prices higher than the budget through flexible trading framework
- Value uplift generated by acquisitions at attractive IRR related to discount rates (24 assets)
- The positive operating results achieved by the Company's solar PV assets, net of dividends and fund costs

## NAV Movement

### Portfolio Valuation Bridge – 31 March 2018 to 30 September 2018



### NAV Bridge – 31 March 2018 to 30 September 2018



## Debt Financing Strategy

- NESF has total debt facilities outstanding of £365m which represents 37% of GAV
- Additional £20m already available through NIBC RCF
- Immediate additional £10m commitment available from Santander RCF
- Average all-in cost of debt of 3.7%
- Potential for optimisation: Bayern, UniCredit, ING and Short term facilities are being repaid through issuance of Preference Shares



Macquarie Infrastructure Debt Investment Solutions ("MIDIS")



- Fully amortising facility (£149m outstanding) expiring in 2035 with unique NAV-enhancing features (grace period, DSRF, flexible PPA)
- Fully amortising facility (£52m outstanding) expiring in 2034
- Debt in place at completion of Radius portfolio in April 2016
- Replacement of DSRA with LoC in March 2018
- £58.3m fully amortizing facility expiring in 2033
- €34.9m fully amortizing facility expiring in 2029 financing part of Solis portfolio
- €37.4m fully amortizing facility expiring in 2030 financing part of Solis portfolio
- Revolving Credit Facility of £20.0m until February 2020
- Revolving Credit Facility of £40.0m until July 2020
- Asset Purchase agreement of £0.5m until July 2021
- Term loan of £0.8m until July 2025

## Robust Dividend Cover

- During the period the Company generated cash income of £26.3m and had net operating costs of £3.3m
- For illustrative purpose only, a theoretical principal instalment on the Apollo financing for the period would have reduced cashflow by £3.0m with an impact of 0.2x on cash dividend cover

Dividends paid	Month of payment	Amount per ordinary share (p)	Total pre scrip £'000	Total post scrip £'000
For the year 2014/15		5.2500	10,946	10,946
For the year 2015/16		6.2500	17,372	17,372
For the year 2016/17		6.3100	25,039	20,681
First quarterly dividend for year 2017/18	Sep-17	1.6050	9,171	7,336
Second quarterly dividend for year 2017/18	Dec-17	1.6050	9,197	6,922
Third quarterly dividend for year 2017/18	Mar-18	1.6050	9,232	8,719
Fourth quarterly dividend for year 2017/18	Jun-18	1.6050	9,239	6,760
First quarterly dividend for year 2018/19	Sep-18	1.6625	9,608	7,105
<b>Total dividends declared to date</b>		<b>25.8925</b>	<b>99,804</b>	<b>85,841</b>
Second quarterly dividend for year 2018/19	Dec-18	1.6625	9,646	9,646 <sup>(1)</sup>
<b>Income</b>	<b>Total £'000</b>			
Income for period to 30 September 2018	26,349			
Net operating costs for period to 30 September 2018	(3,293)			
<b>Net income</b>	<b>23,056</b>			
Dividends during period			18,847	13,865
<b>Net Dividend cover</b>			<b>1.2x</b>	<b>1.7x</b>

(1) Before election of scrip dividend.

## Summary Income Statement

	1 April 2018 to 30 September 2018 £m	1 April 2017 to 31 March 2018 £m	1 April 2016 to 30 September 2017 £m
Income	26.3	41.1	16.4
Movement in Investment Portfolio value	(4.4)	(2.9)	0.5
Net Income	21.9	38.2	16.9
Total expenses	(3.3)	(6.3)	(3.1)
Finance income	0.0	0.3	0.1
<b>Profit and comprehensive income</b>	<b>18.6</b>	<b>32.2</b>	<b>13.9</b>
Earnings per share	3.23p	5.88p	2.69p

## Summary Balance Sheet and Cash Flows

During the period

- NAV increased by £4.8m
- Investment Portfolio increased by £110m
- Cash at bank at 30 September 2018 was £3.8m

Balance Sheet	30 September 2018 £m	31 March 2018 £m	30 September 2017 £m
Investment Portfolio	591.3	481.4	390.4
Residual net assets of Holding Companies	(0.8)	44.8	(12.8)
Current assets	58.6	104.3	239.9
Current liabilities	(39.3)	(25.5)	(15.0)
<b>Net Asset</b>	<b>609.8</b>	<b>605.0</b>	<b>602.5</b>
Net Asset Value per share	105.1p	105.1p	105.1p

Cash Flow statement	30 September 2018 £m	31 March 2018 £m	30 September 2017 £m
Net Cash used in Operating Activities	(58.3)	(78.5)	50.9
Net Cash used generated from Investing Activities	0.1	0.3	0.1
Proceeds from issue of shares	-	124.4	124.4
Dividends paid	(13.9)	(30.1)	(15.5)
Cash at the beginning of the year	75.9	59.8	59.8
Cash at the end of the year	3.8	75.9	220.8



Q&A – Appendix

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## NESF Overview

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### NextEnergy Solar Fund

- Attractive acquisition values sourced by NextEnergy Capital
- Operational outperformance supported by WiseEnergy ensuring optimal asset management
- Targeting a quarterly dividends linked to UK RPI (6.65p/share for year 2018/19)
- Reinvestment of cash surplus to sustain NAV over time

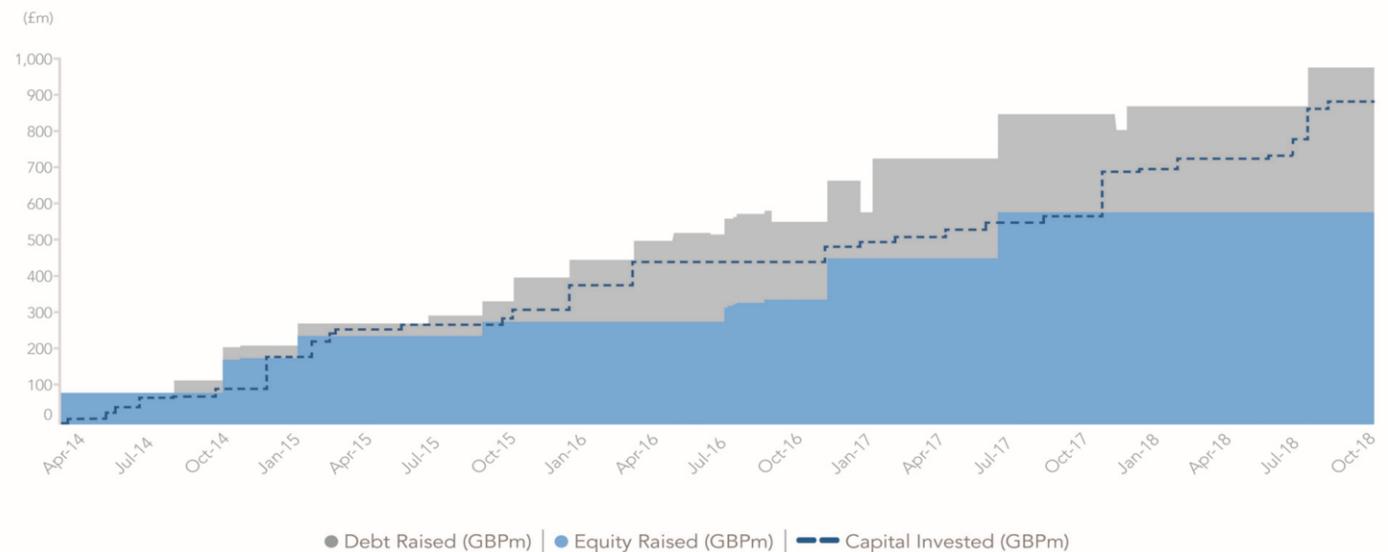
### About the NextEnergy Capital Group (“NEC Group”)

- NextEnergy Capital IM Ltd and NextEnergy Capital Ltd are both members of the NEC Group. NextEnergy Capital Limited acts as the Investment Adviser to NextEnergy Capital IM Limited, which is the Investment Manager of NESF.
- Through its operating asset management division, WiseEnergy, the NEC Group has managed and monitored over 1,300 utility-scale solar power plants (with an installed capacity in excess of 1.9GW) for a client base which includes leading European banks and equity investors (including private equity funds, listed funds and institutional investors).
- The NEC Group also manages NextPower II LP, a €184m private equity fund dedicated to solar PV investments in Italy.

## Capital Raise and Deployment

Date	Shares issued	Equity raised (£m)	Equity invested	Time to deployment
April 2014	85,600,000	85.6	100% by September 2014	5 months
November/December 2014	95,000,000	99.6	100% by January 2015	6 weeks
February 2015	59,750,000	61.4	100% by April 2015	6 weeks
September 2015	37,607,105	38.8	100% by November 2015	6 weeks
July/August/September 2016	64,100,926	64.7	Used to repay debt facility	Immediate
November 2016	110,300,000	115.3	100% by August 2017	10 months
June 2017	115,000,000	126.5	100% by August 2018	1.2 years

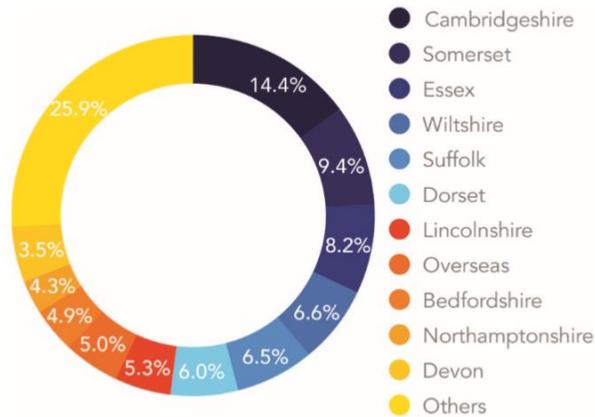
### Capital Deployment Timeline



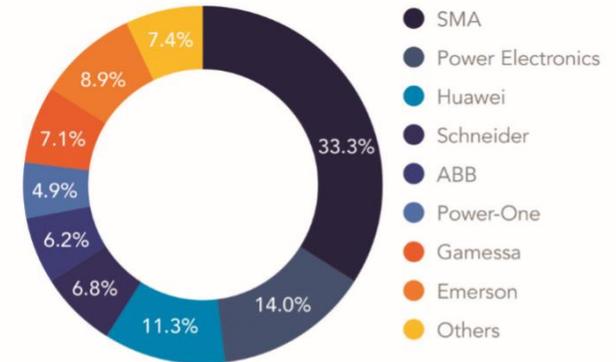
- During the period NESF has fully deployed all the capital raised through equity raising and debt financing
- During the period NESF issued an additional 4.6m new shares totalling £5.0m in the form of scrip dividends
- After the period end, NESF announced a first issuance of Preference Shares for £100m

## Investment Portfolio Diversification

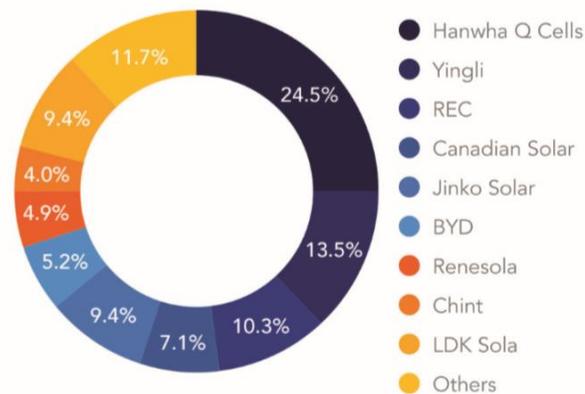
### By Location



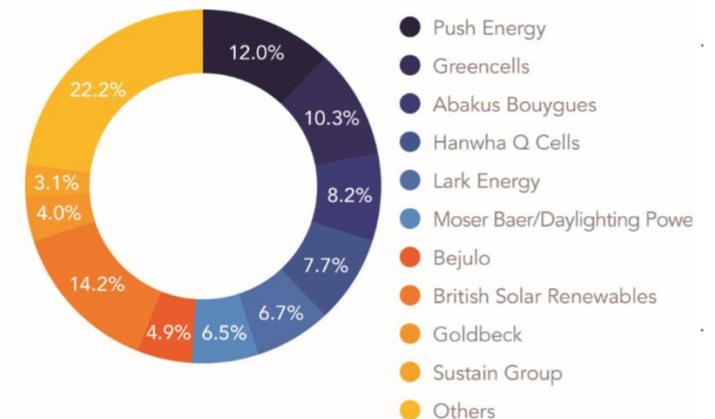
### By Inverter Manufacturer



### By Solar Module Manufacturer



### By EPC Contractor



## UK Energy Market

### Power Prices

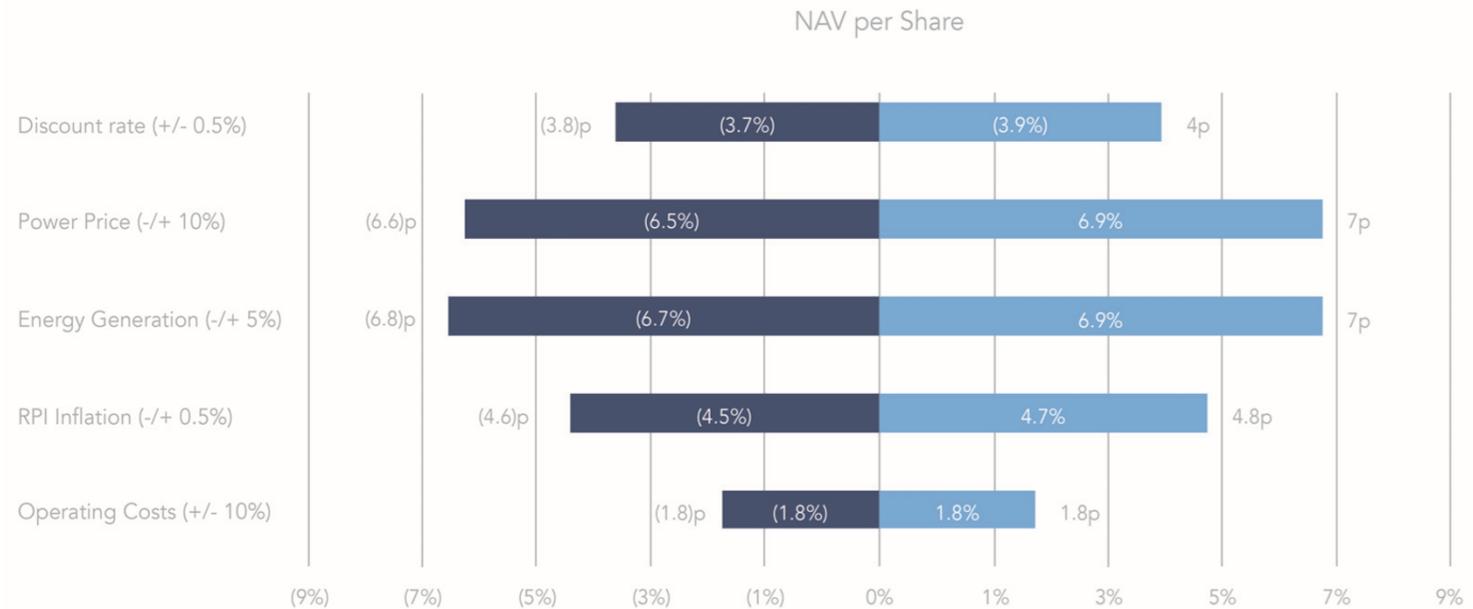
- During the year, the wholesale day ahead power market in the UK experienced an upward movement following the movement in gas price, electricity spot prices rose from £46/MWh in September 2017 to £67/MWh in September 2018
- The Company's flexible PPA framework allowed NESF to lock in higher power prices

### Historical UK Power Prices (£/MWh) <sup>(1)</sup>



<sup>(1)</sup> Source: N2EX – UK Baseload – day ahead

## NAV Sensitivities



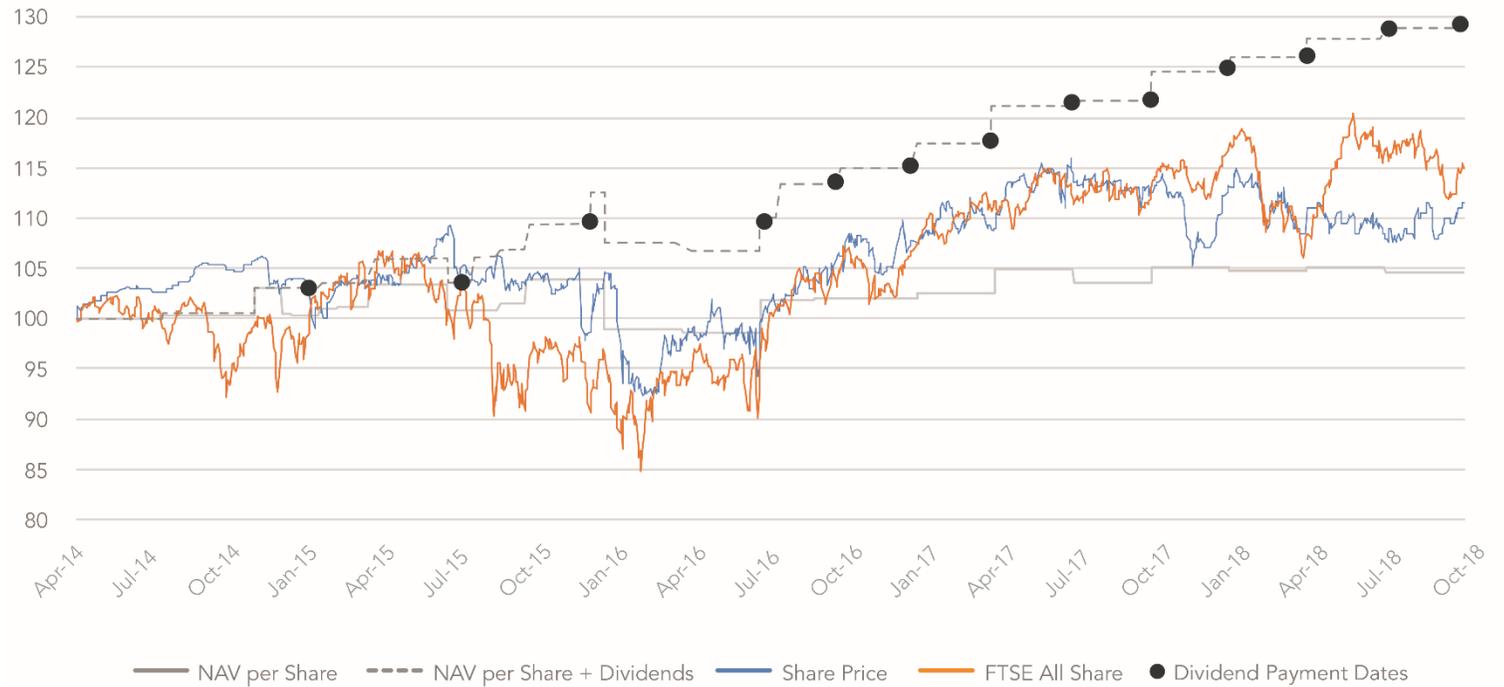
The sensitivity highlights the percentage change in the portfolio resulting from a change in the underlying variables. It also shows the impact on the NAV per share.

- The long-term sensitivity analysis highlights the % change in the investment portfolio value (£591.3m) as well as the subsequent impact on NAV per share

- As of 30 September 2018, the remaining weighted average lease life of the Company's assets was 23.4 years

## Share Price vs NAV per Share

- NESF share price outperformed the FTSE All-Share by 5.7% since IPO
- Shareholder total return was 3.4% for the period ended 30 September 2018 (8.4% annualised since IPO)



## Summary of Debt Financing Terms

- Total debt outstanding at period end is £365m which represents a gearing of 37%
- Average Cost of Debt is 3.7%
- NESF entered into a £2.5m counter-indemnity with Santander following the issuance of a £2.0m Letter of Credit by Santander to MIDIS (Radius facility)
- NESH V entered into a 15 year FX hedging arrangement with Intesa over the expected dividends from the Solis portfolio with an average forward exchange rate of 0.9196 EUR/GBP. The hedging arrangement does not include any cash collateral requirement for NESF

Provider/Arranger	Type	Borrower	Tranches	Facility amount £'000	Amount outstanding £'000	Termination (including options to extend)	Applicable rate
MIDIS/CBA/NAB	Fully-amortising long-term debt	NESH (Apollo portfolio level debt)	Tranche A – Medium-term	48,387	48,387	31-Dec-26	2.91% <sup>(1)</sup>
			Tranche B – Floating long-term	24,194	24,194	30-Jun-35	3.68% <sup>(1)</sup>
			Tranche C – Index linked long-term	38,710	37,302	30-Jun-35	RPI index + 0.36%
			Tranche D – Fixed long-term	38,710	38,710	30-Jun-35	3.82%
			Debt Service Reserve Facility	7,500	–	30-Jun-26	1.50%
MIDIS	Fully-amortising long-term debt	NESH IV (portfolio level debt)	Inflation linked Tranche	27,500	25,281	30-Sep-34	RPI index+ + 1.44%
			Fixed Tranche	27,500	26,891	30-Sep-34	4.11%
UniCredit	Fully-amortising long-term debt	NESH V (portfolio level debt)	Floating long-term	32,920	31,330	30-Jun-29	3.04% <sup>(1)</sup>
ING	Fully-amortising long-term debt	NESH V (portfolio level debt)	Floating long-term	35,133	33,618	30-Jun-30	4.13% <sup>(1)</sup>
NIBC	RCF	NESH II	n/a	20,000	–	13-Feb-20	LIBOR+2.20%
Santander	RCF	NESH VI	n/a	40,000	40,000	03-Jul-20	LIBOR+1.30%
Bayerische Landesbank	Fully-amortising long-term debt	NESH III (project level debt)	Tranche A – Medium-term	5,615	5,615	30-Jun-20	2.89% <sup>(1)</sup>
			Tranche B – Floating long-term	52,705	52,705	31-Mar-33	4.11% <sup>(1)</sup>
Lombard	Asset purchase agreement	NESH III (project level debt)	n/a	437	437	31-Jul-21	3.48%
Lombard	Term loan	NESH III (project level debt)	n/a	816	816	12-Jun-25	4.20%
<b>Total</b>					<b>365,285</b>		

(1) Applicable rate represents the swap rate.

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